

Free and Fair Trade

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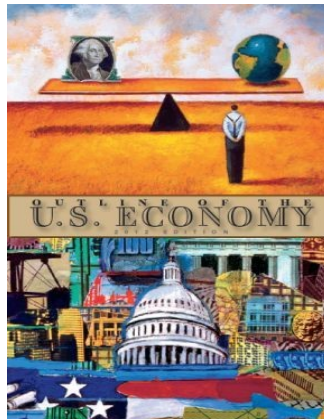
Open Trade and Foreign Policy

30 April 2012

This article is excerpted from the book *Outline of the U.S. Economy*, published by the Bureau of International Information Programs.

U.S. Secretary of State Cordell Hull said in 1948 that open trade “dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war. ... If we could get a freer flow of trade ... freer in the sense of fewer discriminations and obstructions ... so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance of lasting peace.”

In 1948, the United States and 22 other nations signed the General Agreement on Tariffs and Trade, a set of international rules that significantly reduced tariffs and other barriers to the international flow of goods. Seven other rounds of trade negotiations followed as the GATT membership expanded, leading in 1995 to the creation of the World Trade Organization in Geneva, Switzerland, with the authority to oversee member nations’ compliance with trade agreements. The GATT process has successfully lowered tariffs on most manufactured items, stimulating a vast increase in world commerce far beyond the vision of the Bretton Woods organizers. The exception has been agricultural tariffs, which have remained relatively



Outline of the U.S. Economy

high because of the political strength of the farming sector in both wealthy and developing nations and the desire to safeguard essential food production.

Government subsidies and tariffs on farm products have long been politically controversial. American farmers received \$16 billion in various federal subsidies in 2004. U.S. agricultural tariff rates average 12 percent, raising the price of foreign farm products by that amount overall. In the U.S. Congress, representatives from urban areas tend to criticize the tariffs as an unjust tax on consumers that isn’t necessary to support American farmers. Representatives from farm states counter that U.S. tariffs are far lower than average farm tariffs in Europe (30 percent), Japan (50 percent), and India (114 percent).

Subsidies affect farmers’ decisions about which crops to plant. U.S. wheat production has fallen, for example, as many farmers

have switched production to corn used in the manufacture of ethanol as a motor fuel. The U.S. government provides a cash subsidy to ethanol blenders, which, in turn, increases the price farmers receive for supplying corn. Farm subsidies are a confrontational issue with developing nations, which have resisted pressures to open their markets further until the United States agrees to lower its support for its farmers.

The theoretical argument for free trade, made more than two centuries ago by Scottish economist Adam Smith in *The Wealth of Nations*, holds that all nations prosper if each concentrates on manufacturing and trading goods where it has a particular advantage: France its wine, Britain its woollens. On the flip side, for Britain to put a high tariff on French wines raises the price of all wines for British consumers.

But theory and politics began to collide in the 1960s and early 1970s when the rising manufacturing prowess of Japan and Germany began seriously to erode U.S. production in many industries, including steel, automobiles, shoes and textiles. The advantages of expanded trade would be enjoyed across the entire population, as foreign products afford consumers new choices and, often, lower prices. The costs of trade hit much more narrowly on particular industries and their employees whose businesses slumped or failed.

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June 2013

U.S. Embassy Jakarta Mission Statement

The U.S. Mission partners with Indonesia to strengthen the bonds between our people and our governments to promote and protect democracy, security, and sustainable prosperity for our people, the region, and the world.

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U.S.-Indonesia Bilateral Trade and Investment



The United States and Indonesia meet regularly under the auspices of a Trade and Investment Framework Agreement (TIFA) that was signed in July 1996. Under the TIFA, Indonesia and the United States signed a Memorandum of Understanding to Combat Illegal Logging and Associated Trade in 2006.

U.S. goods exports in 2012 were \$8.0 billion, up 8.1 percent from the previous year. Corresponding U.S. imports from Indonesia were \$18.0 billion, down 5.8 percent. Indonesia is currently the 34th largest export market for U.S. goods. The U.S. goods trade deficit with Indonesia was \$10.0 billion in 2012.

U.S. exports of private commercial services (i.e., excluding military and government) to Indonesia were \$1.7 billion in 2011 (latest data available), and U.S. imports were \$437 million. Sales of services in Indonesia by majority U.S.-owned affiliates were \$2.7 billion in 2010 (latest data available), while sales of services in the United States by majority Indonesia-owned firms were \$87 million.

The stock of U.S. foreign direct investment (FDI) in Indonesia was \$11.6 billion in 2011 (latest data available), down from \$15.5 billion in 2010. U.S. FDI in Indonesia is primarily concentrated in the nonbank holding companies and mining sectors.

IMPORT POLICIES

In recent years, Indonesia has enacted numerous regulations on imports that have increased the burden for U.S. exporters. Besides tariffs, import licensing procedures and permit requirements, product labeling requirements, pre-shipment inspection requirements, local content and domestic manufacturing requirements, and quantitative import restrictions impede U.S. exports. Numerous other measures have been adopted or are being considered in the context of draft legislation, including a new food law and a new trade law. The Indonesian government has increasingly adopted such measures as it pursues self-sufficiency objectives. These measures are also being

adopted as Indonesia reduces tariffs as part of implementing preferential trade agreements with countries such as China, Australia, Japan, South Korea, New Zealand, and India. The United States will continue to press Indonesia to resolve U.S. concerns regarding these measures.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Indonesia remained on the Priority Watch List in the 2012 Special 301 report. Key concerns in Indonesia include continuing widespread copyright piracy and trademark counterfeiting, an inadequate number of criminal prosecutions, and non-deterrent penalties for those who are convicted. U.S. industry reports that one of its most significant frustrations remains the nontransparent and non-deterrent court system, which also impedes the ability of rights holders to obtain information about cases directly affecting their interests. Enforcement efforts were insufficient to keep pace with broad-based piracy and counterfeiting in Indonesia. The Indonesian government also is in the process of amending intellectual property laws, including with respect to industrial designs, trademarks, copyrights, and patents.

SERVICES BARRIERS

Indonesia maintains significant and far-reaching trade and investment barriers in many key services sectors.

INVESTMENT BARRIERS

Indonesia's investment climate continues to be characterized by legal uncertainty, economic nationalism, and the disproportionate influence of local business interests. Government requirements often compel foreign companies to do business with local partners and to purchase goods and services locally. Indonesia's 2007 Investment Law was intended to improve transparency and protections for foreign investors including nondiscriminatory treatment, protection against expropriation, and recourse to international arbitration in the event of a dispute with the government. At the same time, however, that law significantly increased the number of sectors in which foreign

investment is restricted and increased foreign equity limitations in sectors of interest to U.S. investors. These sectors include telecommunications, pharmaceuticals, film and creative industries, and construction. While the ongoing process of transferring investment-related decisions from the central level of government to provincial and district level governments has helped to reduce some burdensome bureaucratic procedures, that process has led to inconsistencies between national and regional or local laws.

OTHER BARRIERS

While the Indonesian government and the Corruption Eradication Commission continue to investigate and prosecute high-profile corruption cases, many investors consider corruption a significant barrier to pursuing business in Indonesia. Other barriers to trade and investment include poor government coordination, the slow rate of land acquisition for infrastructure development projects, poor enforcement of contracts, an uncertain regulatory and legal framework, and lack of transparency in the development of laws and regulations. U.S. companies seeking legal relief in contract disputes have reported that they are often forced to litigate spurious counterclaims.

This is excerpted from **Indonesia: 2013 National Trade Estimate Report on Foreign Trade Barriers**. Please read full report that is available at <http://snip.state.gov/5iu>

RELATED LINKS

- Growing the U.S.-Indonesia Economic Relationship: Remarks by Robert D. Hormats, Under Secretary for Economic, Energy and Agricultural Affairs, July 22, 2011. Complete remarks is available at <http://snip.state.gov/5iw>
- Press releases related to U.S.—Indonesia Bilateral Trade and Investment is available at <http://snip.state.gov/5iv>
- Trade and Investment Framework Agreement (TIFA). Complete agreement is available at <http://snip.state.gov/5lf>

More Resources

IIP's U.S. STATE DEPARTMENT PUBLICATIONS

eJournal USA - Benefits of Trade

Removing trade barriers through WTO and other negotiations promises to lift millions of people around the world out of poverty. Read more: <http://snip.state.gov/5ig>

IIP Pamphlet - Expanded Markets, Expanded Opportunity

Regional free-trade agreements facilitate the free flow of goods and services across borders by reducing traditional trade barriers such as tariffs, quotas and bans. Establishing an environment of unrestricted, nonbiased trade fosters competition, inspires innovation and benefits all parties. Read more: <http://tinyurl.com/kag68v5>

IIP Pamphlet - Infrastructure Investments Accelerate Economic Development

Investments in modern infrastructure lay the foundations for economic development and growth. Building roads, bridges, power transmission lines, and making other improvements create jobs. When completed, these projects help a society increase its wealth and its citizens' standard of living. Read more: <http://tinyurl.com/mpv3x5a>

IRC BOOKS/eBOOKS

Carnegie / Peter Krass. Publisher: New Jersey : John Wiley & Sons, c2002.

Globalism : The New Market Ideology / Manfred B. Steger. Publisher: Lanham,

Md. : Rowman & Littlefield Publishers, c2002.

Multinationals on Trial : Foreign Investment Matters (eBook)/ Petras, James Veltmeyer, Henry. Ashgate Publishing Group, 10/2007

One Economics, Many Recipes : Globalization, Institutions, and Economic Growth / Dani Rodrik. Publisher: Princeton : Princeton University Press, c2007.

Princeton Encyclopedia of the World Economy, Volumes 1-2 (eBook) / Reinert, Kenneth A. Rajan, Ramkishan S. Glass, Amy Joycelyn. Publisher: Princeton University Press, 12/2008.

The Prize : The Epic Quest for Oil, Money & Power / Daniel Yergin. Publisher: New York : Free Press, 2008.

Risky Trade : Infectious Disease in the Era of Global Trade (eBook)/ Kimball, Ann Marie. Ashgate Publishing Group, 05/2006

Uprising : Will Emerging Markets Shape or Shake the World Economy? (eBook) / Magnus, George. Wiley, c2010

ONLINE DATABASE

International Trade and Development (CQ Researcher)

CQ Researcher has written reports on topics related to international trade.

Free Trade United States (Business Source Premier)

Searching EBSCO's Business Source Premier for "Free Trade United States" brings up a variety of articles from magazines, academic journals, and other publications.

Free Trade United States (ebrary)

Using ebrary's subject search to look up "Free Trade United States" pulls up a number of books on trade.

Gale Directory Library

The Gale Directory Library hosts a variety of directory products. Use it to search, sort and export information from both current directory editions as well as prior editions that are maintained as searchable back files.

Regional Business News

This database provides comprehensive full text coverage for regional business publications.

Note:

eBooks and online database are available through eLibraryUSA (<http://elibraryusa.state.gov>). To get training and personal account, please contact us at:

Email: ircjakarta@state.gov, Telephone: 021-350-8467.

Explore more book titles on Free and Fair Trade related subjects through our online catalog at: <http://snip.state.gov/53k>

Open Trade and Foreign Policy

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The AFL-CIO, America's largest and most influential labor organization, had initially supported the postwar consensus on trade expansion. But it changed direction in 1970. The threat to its union members from the spread of technology, the escalating flow of U.S. investments into foreign businesses, and unfair trade practices by foreign governments could no longer be ignored, said its chief lobbyist, Andrew

Biemiller.

The greatest challenge to the United States in trade in the 1980s and early 1990s came from Japan. As the Japanese rebuilt from World War II, they steadily created an array of export-focused industries with world-class technologies and efficiencies. In steel, automobiles, consumer electronics and semiconductors, Japan's successes were built on a cohesive cultural commitment to quality. But Japan's critics argued that its growing trade advantage also rested

on unfair trade practices that restricted competing imports from the United States and other rivals, giving Japanese firms a safe haven in which to grow.

Read more: <http://snip.state.gov/5i9>

RELATED LINK:

U.S. Trade Strategy: Free Versus Fair -A Critical Policy Choice/Daniel W. Drezner; Council on Foreign Relations Press, 2066. <http://snip.state.gov/5it>



Office of U.S. Economic, Trade, and Environment Representatives in Indonesia

U.S. Embassy Jakarta: Economic and Environment Section

The Economic and Environment Section plays a leading role in achieving the objectives of the Economic and Development Pillar in the U.S. Indonesia Comprehensive Partnership. The section focuses on a full range of bilateral and multilateral economic issues as well as environmental, science, technology, and health matters. It coordinates closely with other U.S. government agencies to promote U.S. economic goals and facilitate economic ties between the United States and Indonesia.

The Economic Section is divided among three focus areas:

- Environment, science, technology, and health;
- Trade and investment;
- Macroeconomics and finance.

For more details and point of contacts, please visit:

<http://snip.state.gov/5ia>

U.S. Commercial Service Indonesia

The U.S. Commercial Service (USCS), a part of the U.S. Department of Commerce

and the U.S. Embassy in Jakarta, is the key trade promotion agency of the U.S. government.

The mission of USCS is :

- To promote the export of goods and services from the United States
- To represent U.S. business interests internationally
- To help U.S. businesses find qualified international partners.

Located in the World Trade Center complex, our office provides a variety of business development programs to US and Indonesian firms. By introducing U.S. companies to the Indonesian market, USCS not only provides new opportunities for Indonesian businesses, but it also plays an integral role in bringing new U.S. technologies, equipment and services to help advance productivity and growth in Indonesia. For details on doing business with U.S. companies, please visit:

<http://export.gov/indonesia/>

USAID: Economic Growth

The U.S. Agency for International Development (USAID) focuses on programs for

improving the policy environment for rapid, inclusive and sustainable economic growth and on the production and marketing of high value crops, particularly coffee, cocoa, and horticulture, including related agribusiness. Resulting increase in production and economic growth should generate substantial employment to increase incomes and reduce poverty.

Learn more on USAID programs in supporting economic growth in Indonesia at <http://snip.state.gov/5ib>

Foreign Agricultural Service

The Foreign Agricultural Service's (FAS) Office of Agricultural Affairs represents the U.S. Department of Agriculture in Indonesia and works closely with Government of Indonesia, U.S. exporters, Indonesian importers, and Indonesian universities, as well as U.S. land grant universities. FAS seeks to increase sales of U.S. agricultural products to Indonesia, develop new markets, increase competitiveness for U.S. agriculture, and build Indonesia's agricultural and trade capacity. FAS is also responsible for bilateral agricultural trade negotiations. For details, please visit: <http://usdaindonesia.org/>

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Three professionally trained reference specialists will help you to retrieve needed-information quickly, conveniently, and free of charge.

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